

SECTION 32 SEWER AUTHORITY  
WAKEFIELD, MICHIGAN

AUDITED FINANCIAL STATEMENTS  
March 31, 2004

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Section 32 Sewer Authority</b>		County <b>Gogebic</b>
Audit Date <b>3/31/2004</b>	Opinion Date <b>7/26/2004</b>	Date Accountant Report Submitted to State: <b>8/20/2004</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

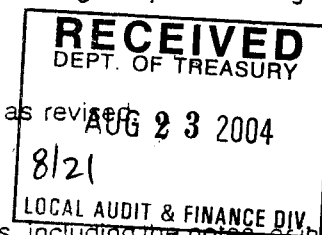
You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) <b>Roger J. Kolehmainen CPA PC</b>			
Street Address <b>1445 E Cloverland Drive</b>	City <b>Ironwood</b>	State <b>MI</b>	ZIP <b>49938</b>
Accountant Signature 			



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Roger J. Kolehmainen, PC  
Certified Public Accountants  
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INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board of Trustees  
Section 32 Sewer Authority  
Wakefield, Michigan

We have audited the accompanying balance sheet of Section 32 Sewer Authority as of March 31, 2004, and the related statements of income and retained earning and cash flow for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express and opinion on these financial statements based on my audit.

We conducted my audit in accordance with generally accepted auditing standards accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement representation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Section 32 Sewer Authority as of March 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles accepted in the United States of America.

  
Certified Public Accountant

Ironwood, Michigan  
July 26, 2004

SECTION 32 SEWER AUTHORITY

BALANCE SHEET

March 31, 2004

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**ASSETS**

CURRENT ASSETS

Cash and cash equivalents	\$ 79,594
Prepaid expenses	2,737
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Total Current Assets	\$ 82,331
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PROPERTY, PLANT AND EQUIPMENT

Land rights and improvements	\$26,824
Lagoon	322,625
Sewer system	139,248
Building and equipment	12,816
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Less allowance for depreciation	501,513
	155,553
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Total Property and Equipment	\$345,960
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TOTAL ASSETS	\$428,291
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**LIABILITIES AND FUND EQUITY**

CURRENT LIABILITIES

Accounts payable	\$ 43
Payroll/withholdings payable	436
Deferred revenues	392
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Total Current Liabilities	\$ 871
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**FUND EQUITY**

CONTRIBUTIONS IN AID OF CONSTRUCTION	30,954
RETAINED EARNINGS	396,466
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TOTAL LIABILITIES AND EQUITY	\$428,291
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The accompanying notes are an integral part of the financial statements.

SECTION 32 SEWER AUTHORITY

STATEMENT OF INCOME AND CHANGES IN RETAINED EARNINGS

Year ended March 31, 2004

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Operating revenues -		
User fees		\$ 6,419
Major customer		<u>15,577</u>
	TOTAL OPERATION REVENUES	\$ 21,996
Operating expenses:		
Contractual cost/repairs	\$11,556	
Depreciation	9,495	
Insurance	2,903	
Miscellaneous	201	
Permits	960	
Utilities	<u>1,779</u>	\$ 26,894
Administrative expenses:		
Payroll and related taxes	\$ 2,347	
Supplies	175	
Transportation	176	
Professional services	<u>1,553</u>	<u>4,251</u>
	TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>\$31,145</u>
	INCOME (LOSS) FROM OPERATIONS	(\$ 9,149)
Other revenues (expenses):		
Interest income		<u>1,013</u>
	NET INCOME (LOSS)	(\$ 8,136)
Retained earnings at April 1, 2003		<u>404,602</u>
RETAINED EARNINGS AT MARCH 31, 2004		\$396,466
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The accompanying notes are an integral part of the financial statements.

SECTION 32 SEWER AUTHORITY

STATEMENT OF CASH FLOWS

Year ended March 31, 2004

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Cash flows from operating activities:	
Income (loss) from operations	(\$ 9,149)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	\$ 9,496
(Increase) decrease in:	
Trade accounts receivable	300
Prepaid expenses	( 350)
Increase (Decrease) in:	
Trade account payable	31
Payroll/withholdings payable	34
Deferred revenues	<u>392</u>
Total adjustments	<u>\$ 9,903</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 754
Cash flows from investing activities:	
Interest earned	<u>1,012</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 1,148</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,766
CASH AND CASH EQUIVALENTS, APRIL 1, 2003	<u>77,828</u>
CASH AND CASH EQUIVALENTS, MARCH 31, 2004	<u>\$79,594</u>
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The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

SECTION 32 SEWER AUTHORITY

March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Section 32 Sewer Authority (the Authority) provides sewage transmission and treatment services to customers in a portion of Township of Wakefield, Michigan. The system became operational December 1, 1987. The accounting principles that affect the more significant elements of the financial statements are summarized below.

Description of Operations

The Authority was incorporated May 19, 1984 to acquire, own, improve, enlarge, extend and operate a sewage disposal system in accordance with Act 233, Public Acts of Michigan, 1955, as amended. The Authority is governed by a Board of Trustees, an independent joint board comprised of members from the two constituent municipalities, Township of Wakefield, Michigan and Gogebic County, Michigan, participating in the sewage disposal system.

Service charges for sewage disposal services are in conformity with a bond ordinance adopted by the participants in connection with the revenue bonds issued to help finance construction of the system.

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America. The accrual basis of accounting is used; revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Trade Accounts Receivable

Credit is granted to all customers, who consist of one major customer (71% - ski hill development) and approximately thirty individuals (29%) who own properties in the vicinity of the ski hill. Uncollectible accounts can be levied against customer's real property.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Items capitalized as part of property and equipment is stated at cost. Depreciation is recognized by the straight-line method over the expected useful life of the property.

Asset Type	Depreciation Period
Utility System	40 years
Building	30 years
Equipment	5-7 years

NOTE B - CASH AND CASH EQUIVALENTS

Statutes authorize the Authority to deposit cash in financial institutions covered by federal depository insurance and to invest in obligations of the United States Treasury, agencies and instrumentality's; commercial paper rated at the time of purchase within the three highest classifications established by not less than two rating services; United States government or agency obligation repurchase agreement; bankers' acceptances of United States banks; certain mutual funds and certain common stocks.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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All Cash and Certificates of Deposits are deposited in financial institutions insured by federal depository insurance. All deposits were covered by insurance and are stated at cost, which is approximately the fair market value.

NOTE C - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows. The assets are being depreciated over estimated useful lives of 40 years. There were no additions nor disposal of assets during the year ended March 31, 2004.

Land and land improvements	\$ 26,824
Lagoon	322,625
Sewage station	139,248
Building and equipment	<u>12,816</u>
	\$501,513
Less: Allowance for depreciation	<u>155,553</u>
	\$345,960
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NOTE D - ACCOUNTS PAYABLE

Accounts payable at March 31, 2004 consisted of normal operating expenditures.

NOTE E - DEFERRED REVENUES

Prepayments on customer's accounts are recognized as deferred revenues.

NOTE F - CONTINGENCIES

The court's trustee is investigating an alleged overpayment of \$42,000 by a former customer in bankruptcy court. The Authority has retained counsel in defending its actions and believes the claims are substantially without merit. The final outcome of such claim cannot be readily determined and no loss contingency has been recognized in the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE G - RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority has obtained coverage from a commercial insurance company. The Authority has comprehensive general liability coverage of \$1,000,000 per occurrence and \$3,000,000 in the aggregate and has obtained worker's compensation coverage.

All risk management activities are accounted for in the financial statements of the Authority. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Authority as of March 31, 2004, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

S U P P L E M E N T A L  
R E P O R T

**Roger J. Kolehmainen, PC**  
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1445 East Cloverland Drive  
Ironwood, MI 49938

INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROLS

Chairman and Members of the Board of Trustees  
Section 32 Sewer Authority  
Wakefield, Michigan

We have audited the financial statements of Section 32 Sewer Authority as of March 31, 2004, and have issued our report thereon dated July 26, 2004.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing the audit of the financial statements of Section 32 Sewer Authority for the year ended March 31, 2004, we considered the internal control structure in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, such study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the Authority there is an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed.

This report is intended solely for the use of Board of Trustees and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board of Trustees, is a matter of public record.

  
Certified Public Accountant  
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July 26, 2004